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RUEHKB/AMEMBASSY BAKU 0327
RUEHKV/AMEMBASSY KIEV 0998
RUEHMO/AMEMBASSY MOSCOW 2103
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C O N F I D E N T I A L VIENNA 002475

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DEPT FOR S/P (STEVE HELLMAN), EUR (DAS BRYZA), AND EUR/AGS
(SAINT-ANDRE)

E.O. 12958: DECL: 08/18/2016
TAGS: [ENRG](#) [EPET](#) [ECON](#) [PREL](#) [AZ](#) [AU](#)
SUBJECT: NABUCCO PIPELINE: AUSTRIA'S OMV CONSIDERS
AZERBAIJAN OPTION

Classified By: Charge d'Affaires Scott Kilner for reasons 1.4 (b) and
(d)

11. (C) Summary. On August 10, State Department (S/P) Energy Advisor Steve Hellman, accompanied by Charge and Acting EconPolCouns, met with senior executives from Austria's main oil and gas company, OMV, to discuss the status of the Nabucco pipeline and ways to move the project forward. The discussion focused on current problems and continuing negotiations with Russia and Turkey, which are seeking to defend their gas positions. OMV was receptive to Hellman's ideas of including Azerbaijan as a supplier and equity partner in the pipeline and his offer to facilitate a meeting between OMV and President Aliev or Azeri Finance Minister. OMV said it would raise this idea at the next Nabucco Steering Committee meeting of shareholders in early September and promised to stay in close contact with Emboffs and Hellman on this issue. Hellman and OMV also agreed to share their calculations about gas volumes in the region. End Summary.

12. (C) On August 10, Energy Advisor Hellman and Emboffs met with OMV CEO Wolfgang Ruttenstorfer, OMV's Head of International Pipeline Projects, Reinhard Mitschek, and the company's corporate spokesman, Thomas Huemer to discuss the current status of the Nabucco pipeline and strategies for moving the project forward. Hellman said that he saw the Nabucco project as the most important piece of Western Europe's energy security structure and offered to provide OMV with as much U.S. support as possible, especially in helping procure gas volumes for the project. Hellman emphasized that the U.S. could use its leverage and credibility to help drive the supply side.

13. (C) From a technical and financial standpoint, the Nabucco pipeline is feasible, according to Mitschek. The Nabucco partners are in close contact with the European Commission and relevant national authorities and anticipate no major problems in these areas. The challenge, Mitschek continued, lies with the gas sources for Nabucco. The pipeline needs to transport fifteen billion cubic meters

(bcm) of gas per year to break even, although 25 bcm would be the "economic optimal."

¶4. (C) Ruttenstorfer said that OMV continues to struggle with getting Russia and Turkey to cooperate with the Nabucco project. OMV receives gas from Russia with "no problems" and will continue to be Europe's major gas supplier. From an energy security standpoint, however, a direct connection from Central Asia, Iran, and Iraq in the long run "is essential." Ruttenstorfer and Mitschek outlined Russia's latest attempts to defend its gas position and undermine Nabucco, including a proposed pipeline project that would transport gas through Serbia, Croatia, Albania, and Greece to Russia's target markets in Italy. The UK, Mitschek said, was another target market for Russia. He also noted that Russia continues to put pressure on Turkey to transport Russian gas through the Turkey-Greece Interconnector (TGI).

¶5. (C) Mitschek said that OMV is facing tough negotiations with Turkey on Nabucco, which he described as a "chicken and egg" problem. OMV wants to buy gas from Turkey, but the Turks continue to insist that the pipeline come first. He added that Turkey's infrastructure for storing gas is insufficient, and that Turkey is suffering from a very high import price on gas coming from Russia. Ruttenstorfer noted OMV's frustration with Turkey's efforts to act as a gas consolidator by buying and reselling gas coming in to Turkey. Hellman agreed that the Turks "buy and resell" plan was unacceptable, and that all western governments and companies needed to deliver this message to the GoT "loud and clear."

¶6. (C) Mitschek commented that if the Nabucco partners exclude Russian gas from the Nabucco pipeline, then they have

to rely on Azerbaijan. He said OMV approached the Commission in early July about doing a "pre-feasibility study" on sourcing gas from the Transcaspian area (Georgia, Azerbaijan, Turkmenistan, and Kazakhstan). The Commission has not yet responded to the OMV offer.

¶7. (C) Hellman laid out the U.S. position on this issue and the reasons for optimism on Azeri gas volumes. He urged OMV to consider the advantages of allowing Azerbaijan to invest in the Nabucco project; this would send a "powerful signal" to international banks, as well as improve the possibilities of sourcing gas from Shah Deniz phase I and II production and from other Azeri alternatives. Hellman said that President Aliev and the Azeri Finance Minister would be interested in meeting with OMV to discuss the issue further and that he could facilitate a meeting.

¶8. (C) Ruttenstorfer and Mitschek questioned how Iran and Turkey, in particular, would perceive Azeri participation in Nabucco; they also wondered whether Azerbaijan really has the necessary gas supplies by itself to get Nabucco started. If there were enough quantities in Azerbaijan, especially by the opening of the pipeline in 2012, then including Azerbaijan would make sense, Ruttenstorfer said. In the meantime, Ruttenstorfer and Mitschek said they would raise the issue of Azeri participation in the pipeline with the Turks and also introduce this idea at the next Nabucco Steering Committee meeting of shareholders in early September. The OMV officials also agreed to receive and provide feedback on U.S. studies about gas volumes in the region and would share their own calculations in this area.

¶9. (U) Energy Advisor Hellman did not have an opportunity to clear this message before departing Vienna. Kilner